marengo exploration ltd.

1999 annual report

corporate profile

Marengo is a Calgary-based junior oil and gas company which has just completed its second year of operations as a public company.

From a start-up situation with minimal assets and approximately $4.0 million in flow-through equity, Marengo has grown its gross revenues to $1,400,000 in 1998, to $2,700,000 in 1999, and to a projected $4,000,000 plus in 2000.

The Company is strongly focused on one core area, which allows for efficiency in operations and a minimum of staff and administrative overhead.

Growth to date has come almost entirely from drilling and reflects the Company's skills in exploration and development.

Production at year-end was split as to approximately two-thirds gas and one-third oil, all of which is sold into the spot market, thereby realizing the full benefit of recent price increases.

Marengo's shares trade on the Canadian Venture Exchange under the symbols MRO.A and MRO.B.

Marengo's General Meeting will be held at 10:00am, Monday June 14, 2000 at the offices of Burstall Ward at 3100, 324-8th Avenue SW in Calgary, Alberta.

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presidents message

I am pleased to report to you on our second year of operations as a public company. As we were successful in reaching our initial objectives in year one, so too were we successful in building on that success in year two.

Capital expenditures in 1999 amounted to slightly over \$3,000,000, which included approximately \$1,700,000 in qualifying CEE and CDE costs for renouncement to flow-through share subscribers.

Building on earlier success, gross revenues increased to \$2,700,000 in 1999 from \$1,400,000 in 1998. We expect that trend to continue with projected revenues for 2000 to be approximately \$4,000,000. Operating income, net of royalties and operating expenses, amounted to \$1,236,000 (\$0.22 per "A" share) for 1999 as compared to \$668,000 (\$0.15 per "A" share) in 1998.

According to plan, Marengo maintained its focus on its core area of western Saskatchewan where thirteen new wells were drilled and one re-completion was performed in 1999, resulting in 7 producing oil wells, 2 suspended oil wells, 2 producing gas wells, 1 gas well awaiting tie-in, and two dry holes. In addition, the Company earned interests in 2 further gas wells, one of which is now producing, and acquired minor additional interests in 3 producing and 1 suspended oil well, also within our core area of operations.

Subsequent to year end, Marengo further enhanced its position in the area through acquiring additional interests in 4 producing oil wells and 1 producing gas well, and interests ranging from 12.5 % to 47% in 2 producing oil wells and 1 oil well recompletion candidate.

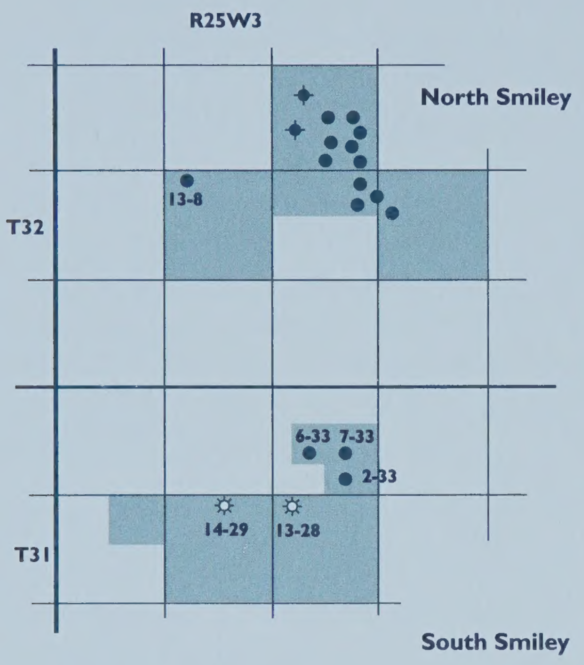
As the year ended, production was split as to two thirds gas and one third "light" heavy oil. While we have been developing new oil reserves in light of the current favourable oil prices, we plan to maintain our gas emphasis. We believe fundamental supply and demand factors are favourable for natural gas within a North American context for the foreseeable future. Oil, however, is susceptible to global factors and is likely to continue to be volatile.

As mentioned, gross revenues are expected to be approximately \$4,000,000 in 2000. After traditional operating and royalty expense deductions, cash flow is expected to be approximately \$2,300,000 at March 31, 2000 prices. Together with unused credit lines, this provides for a capital expenditure budget of approximately \$3,000,000 for 2000.

We look forward to reporting to you quarterly on our progress and thank you, the shareholders, for your continued support.

William H. Petrie
President
April 19, 2000

principal property review



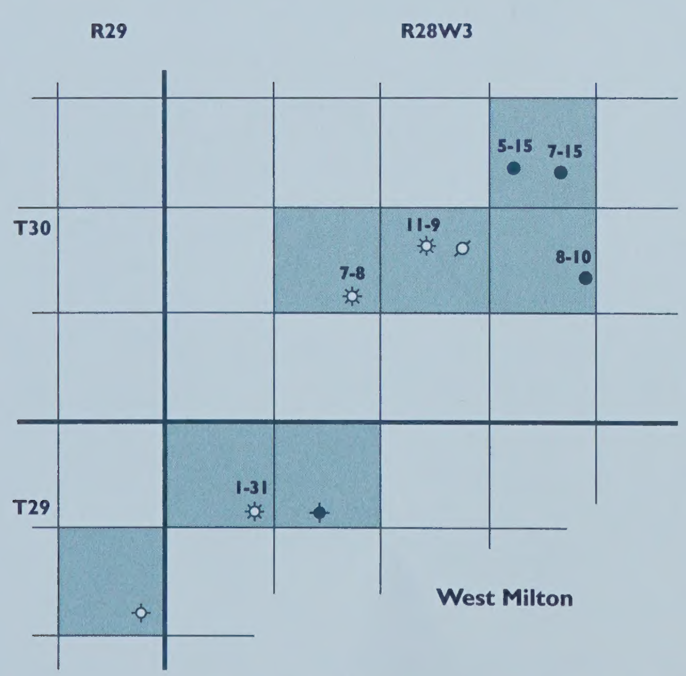
Smiley Area, Saskatchewan

The Smiley properties continue to be an important part of Marengo's assets and production. Combined oil production from North and South Smiley averaged 90 bopd during 1999, while gas production from South Smiley averaged 344 mcfd.

During 1999, five new oil wells were drilled at North Smiley and one well re-entered at South Smiley, yielding four producing oil wells and two suspended oil wells.

The Bakken pool at North Smiley is essentially fully drilled but additional potential exists to extend the Mannville producing trend from 13-8.

At South Smiley, two possible additional development drilling locations exist on Section 33.



West Milton Area, Saskatchewan

An active program of land acquisitions and drilling has made this area one of Marengo's main assets.

Prior to year end, successful gas wells were drilled at 1-31 and 11-9, both on recently acquired lands. These wells are now onstream, and, together with 7-8, produce approximately 1500 mcfd net to Marengo.

Subsequent to year end, Marengo acquired an interest in Sections 10 and 15, including the two producing oil wells at 5-15 and 7-15, and an oil well recompletion opportunity in the 8-10 well. Further drilling is planned to develop the oil potential on these lands during 2000.

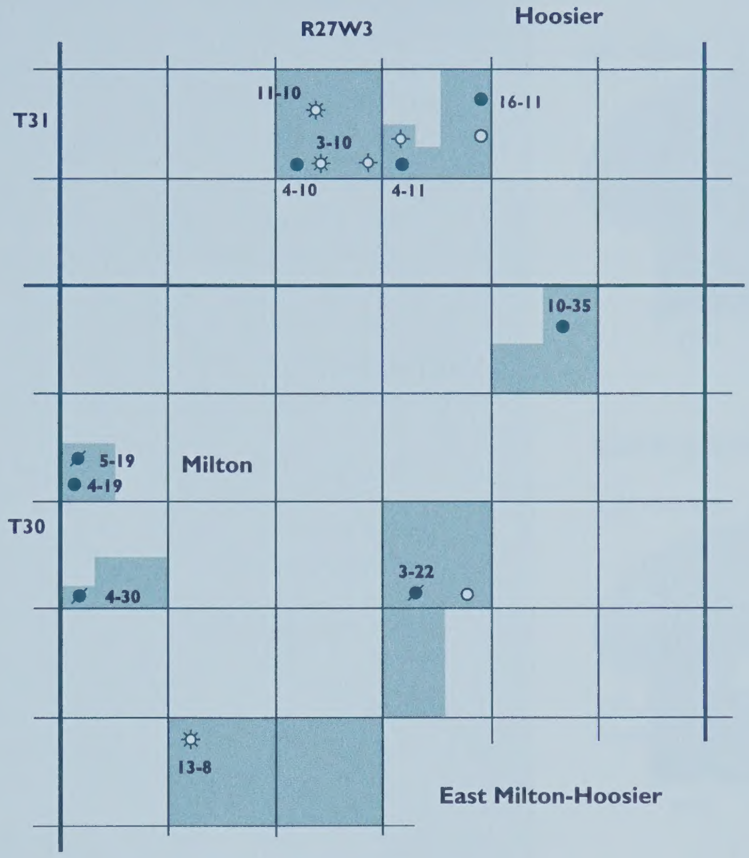
East Milton and Hoosier Area, Saskatchewan

A program of lease acquisition and drilling during fourth quarter 1999 has made this a growth area for Marengo.

The East Milton 13-8 gas well continues to produce an average 350 mcfd net to Marengo, prompting the acquisition of adjacent lands. Further development in this area is ongoing as we acquire additional seismic and geological data, and additional drilling is planned for 2000.

At Hoosier, the Company increased its interest in Section 11 and earned an interest in Section 10 by completing the gas wells at 3-10 and 11-10. This was followed in fourth quarter 1999 by successful high working interest oil wells at 4-10, 4-11 and 16-11. Further drilling is planned in 2000 to develop this property.

As part of our continuing expansion in this area, interests were acquired in lands which include the 4-19 and 10-35 producing oil wells. Subsequent to year end, further interests were acquired in lands, including Section 35, where further development opportunities exist.

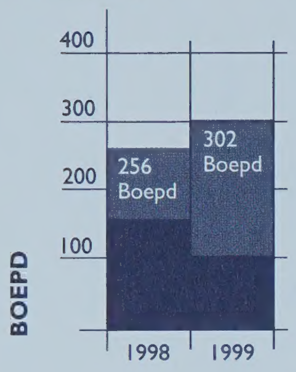


Legend

●	Oil Well
	Abandoned Oil Well
	Suspended Oil Well
☼	Gas Well
	Dry Hole
○	Drilling Location
mcfd	thousand cu.ft. per day
bopd	barrels oil per day

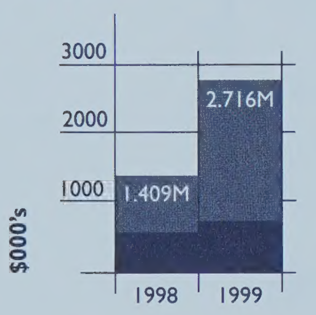
management's discussion & analysis

Production



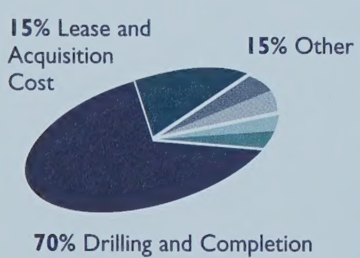
Production in 1999 averaged 302 boepd as compared to 256 boepd in 1998. Of this total, gas production accounted for 67% in 1999, compared to only 38% of the Company's 1998 production. This increase reflects the Company's continuing shift towards gas. Results of drilling in fourth quarter 1999 will be felt early in 2000 and will show approximately the same ratio of gas to oil.

Revenues



Gross production revenue for 1999 was over $2,700,000 compared to $1,400,000 for 1998. Approximately 26% was oil revenue while 74% was gas sales. The average price for oil was $20.76 per barrel compared to slightly over $10.00 per barrel during 1998. Gas prices improved, on average, to $2.66 per mcf in 1999 over $2.50 per mcf in 1998.

Capital Expenditures



Total capital expenditures during 1999 were $3,034,000 and consisted of the following:

Drilling & Completion	2,110,000
P&NG Lease Acquisition	482,000
Capitalized G&A	171,000
Geophysical (seismic)	138,000
Plant & Equipment	67,000
P&NG Lease Rentals	66,000
Total	**$3,034,000**

Reserves

The following table is taken from a report dated March 31, 2000 by Paddock Lindstrom & Associates, the Company's firm of independent engineers:

	Oil (MBO)	Gas (MCF)	M BOE
Proved Producing	222.6	3,013.8	524.0
Proved Non-Producing	21.3	1,556.3	176.9
Total Proved	243.9	4,570.1	700.9
Probable Additional	272.9	1,242.1	397.1
Total Proved + Probable	516.8	5,812.2	1,098.0
50% reduction for risk	(136.5)	(621.0)	(198.6)
Total	**380.3**	**5,191.2**	**899.4**

Expenses & Netbacks

The following tables and charts show the Company's netbacks for oil and the percentages of deductions. The overall netback of $10.80 per BOE can be further divided as to oil and gas netbacks.

Oil	
Average Price	$20.76/bbl
Average Royalty	3.00
Average Op Cost	6.59
Netback	$11.17/bbl

Gas	
Average Price	$2.60/mcf
Average Royalty	0.91
Average Op Cost	0.68
Netback	$1.07/mcf

Historical Finding Costs

To provide an all-inclusive long-term average, we include in this calculation all costs attributed to capital assets. This includes all drilling, completion and equipping of wells, as well as lease acquisitions, seismic costs and capitalized general and administrative expenses since the Company's Initial Public Offering in December 1997, as well as the original capital asset value prior to our IPO.

December 31, 1997 Capital Assets	$ 958,000
1998 Additions to Capital Assets	3,921,000
1999 Additions to Capital Assets	3,034,000
Total Capital Assets Cost	**$ 7,913,000**

To properly reflect reserves found, the production volumes for prior periods, in BOE, are added to the March 31, 2000 numbers from the Paddock report, as follows:

	MBOE Proven		MBOE Prob. Add'l		MBOE Total
Reserves, March 31, 2000	701		397		1098
1999 Production	107				
1998 Production	93				
First quarter 2000 production	40				
Total reserves found	**941**	**+**	**397**	**=**	**1338**

Finding Costs, per proven BOE = $8.41
Finding Costs, per proven + probable BOE = $5.91

Reserve Replacement

The following tables shows changes in reserves over the period October 1, 1998 to March 31, 2000, the dates of the Company's most recent independent reserve reports.

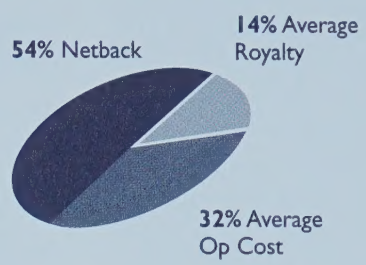
	Proven MBOE	Prob Add (MBOE)	Total MBOE
October 1, 1998	401	184	585
March 31, 2000	701	397	1098
Additions for period	300	213	513

Following is a summary of production for the same period.

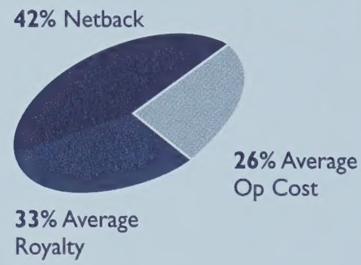
October–December 1998	34	MBOE
1999	110	MBOE
January–March 2000 (estimated)	40	MBOE
Total production for period	184	MBOE

Based on the above, reserves have been replaced as follows:
On a proven only basis, by a factor of 1.6 times
On a proven plus probable bases, by a factor of 2.8 times

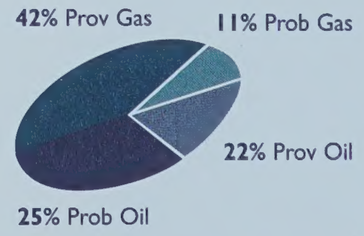
Oil Expenses & Netbacks



Gas Expenses & Netbacks



Reserves



auditors' report to shareholders

We have audited the balance sheets of Marengo Exploration Ltd. as at December 31, 1999 and 1998 and the statements of income (loss) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

KPMG LLP.

Calgary, Canada
April 26, 2000

balance sheet

As at December 31	1999	1998
Assets		
Current assets		
Cash and term deposits	$ 804,723	$ 1,478,163
Accounts receivable (Note 5)	856,724	911,863
	1,661,447	2,390,026
Capital assets (Note 3)	3,793,049	2,128,373
	5,454,496	4,518,399
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilites	2,685,693	1,628,157
Provision for site restoration	31,282	17,134
Deferred income taxes	229,380	-
Shareholders' equity		
Share capital (Note 5)	3,553,125	3,968,734
Deficit	(1,044,984)	(1,095,626)
	2,508,141	2,873,108
Commitments (Note 7)		
	$ 5,454,496	$ 4,518,399

See Accompanying Notes

On behalf of the Board:

Harley L. Winger
Director

William H. Petrie
Director

statements of income (loss) and deficit

Years ended December 31	1999	1998
Revenue		
Petroleum and natural gas	$ 2,715,168	$ 1,409,321
Interest	47,242	59,353
Royalties	(783,755)	(358,950)
	1,978,655	1,109,724
Expenses		
Operating	742,680	441,329
General and administrative	331,016	163,580
Financing costs	19,235	78,422
Depletion, depreciation and amortization	605,702	1,430,581
	1,698,633	2,113,912
Net Income (loss) before taxes	280,022	(1,004,188)
Deferred income taxes (Note 6)	(229,380)	-
Net income (loss)	50,642	(1,004,188)
Deficit, beginning of year	(1,095,626)	(91,438)
Deficit, end of year	$ (1,044,984)	$ (1,095,626)
Earnings (loss) per share	$ 0.01	$ (0.13)

See Accompanying Notes

statements of cash flow

As at December 31	1999	1998
Cash provided by (used in)		
Operations		
Net income (loss)	$ 50,642	$ (1,004,188)
Items not involving cash		
Deferred income taxes	229,380	-
Depletion, depreciation and amortization	605,702	1,430,581
Cash flow from operations	885,724	426,393
Change in non-cash operating working capital	1,112,675	(36,673)
	1,998,399	389,720
Financing		
Issue of share capital	487,500	1,108,750
Shareholder loan issued	(125,000)	-
	362,500	1,108,750
Investing		
Additions to capital assets	(3,034,339)	(3,920,775)
Change in cash position	(673,440)	(2,422,305)
Cash position, beginning of year	1,478,163	3,900,468
Cash position, end of year	$ 804,723	$ 1,478,163

See Accompanying Notes

notes to financial statements

1

General Marengo Exploration Ltd., (the "Corporation") was incorporated under the laws of Alberta on July 3, 1996.

Significant accounting policies

(a) Petroleum and natural gas operations: The Corporation follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, and overhead charges directly relating to acquisition, exploration and development activities.

Costs of acquiring and evaluating unproved properties are initially excluded from costs subject to depletion. Unproved properties are assessed regularly to ascertain whether impairment should be added to costs subject to depletion.

Capitalized costs including the costs of production equipment, are depleted and depreciated on the unit-of-production method based on the estimated net proved reserves before royalties as determined by independent petroleum engineers. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content.

Total capitalized costs less accumulated depletion and depreciation, cumulative provisions for site restoration costs and deferred income taxes are limited to an amount equal to the estimated future net revenue from proved reserves plus the cost, net of impairments, of unproved properties, less estimated future general and administrative expenses, financing costs, site restoration costs and income taxes.

Any capitalized costs in excess of future net revenue are included in the depletion, depreciation and amortization charge for the period.

(b) Future site restoration and abandonment costs: Future site restoration and abandonment costs are based on management's estimates and amortized on the unit-of-production method. The provision will be included in depletion and depreciation in the statement of loss and deficit. Actual site restoration and abandonment costs are charged to the provision as incurred.

(c) Joint interest operations: A significant portion of the Corporation's exploration and production activities are conducted jointly with other entities and, accordingly, the accounts reflect only the Corporation's proportionate interest in such activities.

(d) Per share amounts: Per share amounts are calculated using the weighted average number of Class A and B shares outstanding during the year. Fully diluted loss per share is not disclosed as the effect of conversion of share options and purchase warrants is anti-dilutive.

(e) Flow-through shares: Resource expenditure deductions funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred.

(f) Measurement uncertainty: The amounts recorded for depletion and depreciation of capital assets are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(g) Deferred income taxes: The Corporation follows the deferral method of tax allocation accounting under which the provision for corporate income taxes is based on the earnings reported in the accounts and takes into account the tax effect of timing differences between financial statement income and taxable income. Commencing in 2000, the Corporation will adopt the liability method of accounting for income taxes as required by the CICA.

2

Business acquisitions

Effective November 5, 1999, under a plan of arrangement, the Corporation, acquired all of the issued and outstanding shares of 851494 Alberta Ltd. and 850054 Alberta Ltd. Both companies were in the business of exploration, development and production of petroleum products.The acquisition was accounted for using the purchase method with the results of operations being included from the date of acquisition.

Allocated:	
Capital assets of 851494 Alberta Ltd.	$ 55,000
Capital assets of 850054 Alberta Ltd.	55,000
	$ 110,000
Cost of acquisition:	
Cash paid to shareholder of 851494 Alberta Ltd.	$ 55,000
Cash paid to shareholder of 850054 Alberta Ltd.	55,000
	$ 110,000

notes to financial statements

3

Capital assets

1999	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	$ 5,895,243	$ 2,102,194	$ 3,793,049
1998			
Petroleum and natural gas properties	$ 3,561,472	$ 1,433,099	$ 2,128,373

The net recoverable amount calculated under the full-cost accounting guideline exceeds the net book value of the Corporation's petroleum and natural gas properties.

As at December 31, 1999, the estimated future site restoration and abandonment costs to be accrued over the remaining life of the reserves is $53,000, of which $14,148 is included in depletion and depreciation in the current year.

During the year, the Corporation capitalized $171,000 (1998 - $183,000) of general and administrative expense related to exploration and development activities.

At December 31, 1999, petroleum and natural gas properties of $75,000 (1998 - $75,000) were excluded from costs subject to depletion and depreciation.

4

Bank Loan

At December 31,1999, the Corporation has a revolving demand credit facility with a Canadian bank for a maximum of $500,000. Interest is payable monthly at the Prime Rate plus 1%.

Subsequent to year end, the Corporation was granted an additional temporary revolving demand loan of $750,000. Interest is payable monthly at Prime Rate plus 1.5%. The Corporation is currently negotiating a combined facility and the bank has indicated, subject to finalization of their review, that they anticipate providing a combined facility of at least $1,250,000.

These facilities are secured by a general assignment of book debts and revenues under material contracts and a $2,500,000 debenture with a floating charge over all assets of the Corporation and a fixed charge over certain of the Corporation's petroleum and natural gas properites.

5

Share capital

(a) Authorized: Unlimited number of voting Class A shares.

Unlimited number of voting Class B shares, convertible at the option of the Corporation at any time after December 31, 2000 and before December 31, 2002, into Class A shares. The fraction is calculated by dividing $10 by the greater of $1 and the then current market price of Class A shares. If conversion has not occurred by the close of business on December, 31, 2002, the Class B shares become convertible at the option of the shareholder into Class A shares on the same basis. Effective on February 28, 2003, all remaining Class B shares will be deemed to be converted to Class A shares as per the aforementioned conversion formula.

(b) Issued and outstanding:

	1999		1998	
	Number of Shares	Amount	Number of Shares	Amount
Class A shares				
Balance, beginning of year	4,584,850	$ 1,268,619	3,894,100	$ 597,369
Conversion of warrants	-	-	40,750	40,750
Flow-through issue	975,000	487,500	650,000	650,000
Share issue costs	-	-	-	(19,500)
	5,559,850	$ 1,756,119	4,584,850	$ 1,268,619
Class B shares				
Balance, beginning of year	408,936	$ 2,753,715	365,186	$ 3,651,860
Issued for cash	-	-	43,750	437,500
Flow-through share renouncement		(778,109)	-	(1,335,645)
Balance, end of year	408,936	1,975,606	408,936	2,753,715
Share purchase loans	-	(178,600)	-	(53,600)
Total share capital		$ 3,553,125		$ 3,968,734

(c) Share options: Shares of the Corporation are reserved for directors, officers and employees under the Corporation's stock option plan. As at December 31, 1999, 458,485 Class A common share options were outstanding at a weighted average exercise price of $0.42 per share which expire between 2002 and 2004.

Changes in the number of options, with their weighted average exercise price are summarized below:

	1999 Number of options	1999 Weighted average exercise price	1998 Number of options	1998 Weighted average exercise price
Stock options outstanding, beginning of year	389,400	$ .40	389,400	$ .40
Granted	179,085	.44	–	–
Cancelled	(110,000)	.40	–	–
Stock options outstanding, end of year	458,485	$ .42	389,400	$ .40
Exercisable at year end	428,990	$ .41	249,800	$ .40

	Options Outstanding		Options Exercisable
Prices	Number Outstanding at 12/31/99	Weighted-Average Remaining Contractual Life	Number Exercisable At 12/31/99
$.40	389,400	3.41 years	382,933
.50	69,085	4.18 years	46,057
$.44	458,485		428,990

(d) Share purchase loans:

Share purchase loans of $178,000 (1998 - $53,600) held by officers and directors of the Corporation are a reduction of share capital. These loans are secured by 375,046 shares of the Corporation with a fair value of $281,285 at December 31, 1999. A loan for $53,600 bears no interest and is repayable within the next year. The remaining loans bear interest at 6.5% per annum and are repayable on demand.

6 Income taxes

The provision for income tax differs from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rate to net income (loss) before taxes. This difference results from the following:

	1999	1998
Net income (loss) per statement of income (loss)	$ 280,022	$ 1,004,188
Effective tax rate	44.6%	44.6%
Expected income tax expense recovery	$ 124,890	$ (447,868)
Effect on income tax of:		
Non-deductible crown royalties, net	203,918	82,217
Resource allowance	(114,517)	(16,066)
Non-deductible depletion	126,285	336,642
Recognized (unrecognized) income tax benefits	(70,803)	45,075
Share issuance costs	(42,816)	-
Other	2,423	
Income tax expense	$ 229,380	$ -

Capital assets with a net book value of as at December 31, 1999 of $1,773,000 (1998-$1,099,000) have no basis for income tax purposes as a result of flow-through share issuances

7 Commitments

The Corporation is committed to spend $487,500 (1998 - $1,745,000) of eligible exploration expenses in the year ended December 31, 2000 under the terms of the flow-through share agreements for renouncements made in 1999.

The Corporation had previously entered into Participation Agreements and Reciprocal Agreements with various companies. Subsequent to year end, these agreements have expired.

8 Financial instruments

Financial instruments of the Corporation consist of cash, accounts receivable, accounts payable, and accrued liabilities. At December 31, 1999, there are no significant differences between the carrying value reported on the balance sheet and their estimated market values.

corporate information

Board of Directors
W.H. Petrie
P.J.Streukens
H.L. Winger
R.F. Braund

Officers
W.H. Petrie
President & Chief Executive Officer

H.L. Winger
Corporate Secretary

Solicitors
Burstall Ward
Calgary, Alberta

Auditors
KPMG
Calgary, Alberta

Transfer Agent
Montreal Trust Company of Canada,
Calgary, Alberta

Independent Engineers
Paddock, Lindstrom and Associates Ltd.
Calgary, Alberta

Capitalization
Outstanding as of December 31, 1999:

	5,559,850 Class "A"
	408,936 Class "B"
Fully Diluted:	6,115,855 Class "A"
	408,936 Class "B"

Shares Listed
Alberta Stock Exchange, Symbols:
MRO.A, MRO.B

Corporate Offices
Suite 1870, 540 – 5th Avenue S.W.
Calgary, Alberta T2P 0M2

abbreviations

bbls	Barrels
bopd	Barrels of oil per day
boe	Barrels of oil equivalent wherein natural gas is equated to oil using 10 mcf = 1 barrel of oil
boepd	Barrels of oil equivalent per day
CEE	Canadian Exploration Expense
CDE	Canadian Development Expense
COGPE	Canadian Oil and Gas Property Expense
mcf	Thousand cubic feet
mcfd	Thousand cubic feet per day
NGLs	Natural gas liquids

Marengo Exploration Ltd.
Suite 1870, 540-5th Avenue SW
Calgary, Alberta T2P 0M2

tel. 403.237.6612
fax. 403.237.0310